

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 SP-02 ICA-20 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03
H-02 PA-02 ISO-00 /122 W
-----004058 201751Z /43

R 201700Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9558
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(JUNE 13-19)

REF: BONN 11032 AND BONN 8565

1. SUMMARY. SUBJECTS COVERED: BUNDESBANK ON ECONOMIC
SITUATION AND FIRST QUARTER GNP; COUNCIL OF ECONOMIC
EXPERTS RECOMMENDS TAX CHANGES TO STIMULATE ECONOMY;
ENERGY CONSERVATION BUDGETARY PROPOSALS;

FOREIGN EXCHANGE MARKET (TABLE); MONEY
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MARKET (TABLE); SPECIAL REDISCOUNT FACILITY DIS-
CONTINUED; BUNDESBANK FOREIGN POSITION; BANK LIQUIDITY;
BOND MARKET (TABLE); ECONOMIC INDICATORS (TABLE).

2. BUNDESBANK AGAINST MORE PUMP PRIMING DESPITE
UNDERSHOOTING OF GROWTH TARGET:

IN ITS JUNE REPORT THE BUNDESBANK SAYS THAT THE FRG'S 3 1/2 PERCENT GNP GROWTH PROJECTION FOR 1978 CANNOT BE REACHED. FIRST QUARTER GNP (SEASONALLY ADJUSTED BASIS) IS ESTIMATED TO HAVE BEEN ONLY FRACTIONALLY HIGHER THAN FOURTH QUARTER 1977 GNP (SEE TABLE BELOW) AND ONLY 1 1/2 PERCENT OVER THE CORRESPONDING PERIOD OF 1977. THE BUNDESBANK ATTRIBUTES THE POOR FIRST QUARTER RESULTS TO STRIKES AND TO BAD WEATHER, AND ESTIMATES THAT THESE LOSSES IN PRODUCTION CANNOT BE FULLY MADE UP IN SUBSEQUENT QUARTERS, HENCE THE GNP SHORTFALL FOR THE YEAR. DESPITE THE EXPECTED GAP BETWEEN GNP RESULTS AND GNP PROJECTIONS FOR 1978, THE REPORT CLAIMS THAT THE GOVERNMENT HAS BEEN RIGHT NOT TO ACCEDE TO FOREIGN PROPOSALS WHICH RECOMMEND ADDITIONAL PROGRAMS OF ECONOMIC STIMULATION. IT ASSERTS THAT NEW INVESTMENT PROGRAMS WOULD IMPINGE MOSTLY ON THE CONSTRUCTION SECTOR WHICH IS ALREADY BEING STRAINED BY HIGH DEMAND AND THAT AN EVEN LARGER GOVERNMENT DEFICIT WOULD PLACE TOO MUCH PRESSURE ON CREDIT MARKETS.

FRG GNP, CONSTANT - 1970 - PRICES

SEASONALLY ADJUSTED BUNDESBANK ESTIMATES
(PERCENT CHANGE FROM PRECEDING QUARTER
ROUNDED TO THE NEAREST ONE-HALF PERCENTAGE POINT):

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	1977	1978	
	----	----	
	3RD Q	4TH Q	1ST Q
	----	----	----
PRIVATE CONSUMPTION	2.0	0	1.0
GOVERNMENT CONSUMPTION	0.5	0.5	1.5
INVESTMENT IN:			
EQUIPMENT	2.0	2.0	-0.5
CONSTRUCTION	-2.0	1.5	-1.0
EXPORTS	0	3.0	0.5
IMPORTS	6.0	-2.5	3.5

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SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
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R 201700Z JUN 78
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TO SECSTATE WASHDC 9559
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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GNP 0 1.5 0

ALL OF THE ABOVE ARE QUARTERLY RATES.

3. COUNCIL OF ECONOMIC EXPERTS RECOMMENDS TAX
REVISIONS:

ACCORDING TO PRESS REPORTS, THE COUNCIL OF ECONOMIC
EXPERTS HAS ISSUED A SPECIAL REPORT ON THE ECONOMY
(BONN 11032) WHICH RECOMMENDS ADJUSTMENTS IN THE TAX
SYSTEM TO ACHIEVE A HIGHER RATE OF GROWTH. THE COUNCIL
REPORTEDLY SUGGESTS THAT INCOME TAX REFORM BE CARRIED
OUT MORE SPEEDILY THAN PLANNED (NOTE: FINANCE MINISTER
MATTHOEFER RECENTLY PROJECTED INCOME TAX REFORM FOR
1980); THE TRADE TAX (GEWERBESTEUER -- LOCAL BUSI-
NESS TAX BASED ON COMBINATION OF SALES AND PAYROLLS) BE
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REDUCED IN STEPS; AND THE VALUE ADDED TAX BE RAISED
TO OFFSET (PART OF ?) REVENUE LOSSES FROM DIRECT TAXES.
THE EXPERTS ALSO RECOMMEND ADJUSTMENTS IN THE TAX
SYSTEM WHICH WOULD TEND TO ENCOURAGE INVESTMENT. THE
SPECIAL REPORT IS TO BE PUBLISHED ON JUNE 21.

4. CONFERENCE COMMITTEE PROPOSES COMPROMISE ON

FEDERAL/STATE ENERGY CONSERVATION PROGRAM:

THE BUNDESTAG/BUNDESRAT CONFERENCE COMMITTEE HAS WORKED OUT A COMPROMISE PROPOSAL ON THE DM 4.35 BILLION FEDERAL/STATE ENERGY CONSERVATION PROGRAM (BONN 8565). THE PROPOSAL ENVISAGES A COMBINATION OF DIRECT SUBSIDIES (DM 2.35 BILLION) AND TAX CONCESSIONS (DM 2 BILLION) FOR ENERGY-SAVING INVESTMENTS OVER A FIVE-YEAR PERIOD. THE SUBSIDIES -- 20 PERCENT OF INVESTMENT COSTS -- WOULD APPLY PRIMARILY TO INVESTMENTS IN HOUSING UNITS AMOUNTING TO AT LEAST DM 4,000 AND NO MORE THAN DM 12,000 PER UNIT. THE TAX CONCESSIONS -- TEN PERCENT ANNUAL DEPRECIATION -- WOULD APPLY TO NON-RESIDENTIAL BUILDINGS. APPROVAL OF THE COMMITTEE'S PROPOSALS BY BOTH HOUSES IS GENERALLY TAKEN FOR GRANTED AND EXPECTED TO COME IN TIME FOR IMPLEMENTATION EFFECTIVE JULY 1. FEDERAL FUNDS REQUIRED FOR THE PROGRAM IN 1978 ARE ALREADY CONTAINED IN THE DM 188.7 BILLION BUDGET (BONN 10894).

5. FOREIGN EXCHANGE MARKET:

THE DOLLAR STRENGTHENED AGAINST THE DEUTSCHEMARK DURING THE EARLY PART OF THE REPORTING PERIOD BUT WEAKENED AGAIN ON JUNE 19 AND 20. THE GERMAN FINANCIAL PRESS ATTRIBUTED THE STRENGTHENING TO RECENT STATEMENTS BY SECRETARY BLUMENTHAL AT THE OECD

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MINISTERIAL MEETING. DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS		FORWARD DOLLARS		
	(IN DM PER \$1.--)		(IN PCT. PER ANNUM)		
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
JUNE 13	2.0805	2.0807	2.0810	-4.8	-5.0
14	2.0845	2.0850	2.0830	-4.3	-5.0
15	2.0920	2.0936	2.0950	-4.9	-5.1
16	2.0990	2.0984	2.0955	-4.6	-5.2
19	2.0875	2.0895	2.0913	-5.0	-5.1
20	2.0875	2.0812	N.A.	N.A.	N.A.

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SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 ISO-00
L-03 H-02 PA-02 /122 W
-----004130 201737Z /43

R 201700Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9560
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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6. MONEY MARKET:

THE GERMAN MONEY MARKET REMAINED TIGHT WITH ALL MONEY
RATES BEING AT OR SLIGHTLY ABOVE THE 3 1/2 PERCENT
LOMBARD RATE. DURING THE REPORTING PERIOD FRANKFURT
INTERBANK MONEY RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JUNE 13	3.50-3.55	3.55	3.65
14	3.50	3.55	3.65
15	3.50	3.55	3.65
16	3.50	3.55	3.65
19	3.50-3.55	3.55	3.65

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7. BUNDESBANK DISCONTINUES SPECIAL REDISCOUNT FACILITY:

DESPITE THE CONTINUED TIGHTNESS ON THE MONEY MARKET, THE
BUNDESBANK DISCONTINUED ON JUNE 19 THE SPECIAL REDIS-
COUNT FACILITY. UNDER THIS FACILITY THE BUNDESBANK HAD,

SINCE MARCH 13, 1978, DISCOUNTED BANKS' ELIGIBLE PAPER FOR A PERIOD OF 10 DAYS AT AN ANNUAL INTEREST RATE OF 3.25 PERCENT - THE MID POINT BETWEEN THE NORMAL REDISCOUNT RATE AND THE LOMBARD RATE.

8. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JUNE 1-7 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.9 BILLION TO DM 89.0 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 744 MILLION AND GERMANY'S IMF GOLD TRANCHE POSITION BY DM 8 MILLION. SDR HOLDINGS DECLINED BY DM 35 MILLION, CREDITS TO MONETARY AUTHORITIES OTHER THAN THE EUROPEAN MONETARY FUND BY DM 35 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 220 MILLION.

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INFO OCT-01 EA-12 SP-02 ICA-20 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
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R 201700Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9561
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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9. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 0.2 BILLION. THE ONLY MAJOR FACTORS INCREASING

LIQUIDITY WERE THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION AND A DM 0.6 BILLION DECLINE IN CURRENCY IN CIRCULATION. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 0.1 BILLION. THE ONLY BASIC FACTOR REDUCING LIQUIDITY WAS DM 1.4 BILLION OF SALES BY THE BUNDESBANK OF MONEY MARKET PAPER. THE BANKS USED THE INCREASED LIQUIDITY TO REDUCE SPECIAL REDISCOUNT BORROWINGS BY DM 0.2 BILLION. AT THE SAME TIME, THEY REDUCED LOMBARD BORROWINGS BY DM 0.1 BILLION BUT INCREASED NORMAL REDISCOUNT BORROWINGS BY DM 0.1 BILLION.

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10. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS, BONDS WITH LONGER MATURITIES TO REDEMPTION SUFFERED PRICE DECLINES. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
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JUNE 16	4.15	5.25	5.70	6.10	6.30	6.35
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JUNE 9	4.15	5.25	5.65	6.05	6.20	6.30
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ON THE MARKET FOR FOREIGN DM BONDS THE NORWEGIAN ELKEM-SPIGERVERKET A/S HAS PLACED PRIVATELY BONDS OF DM 40 MILLION. THE BONDS CARRY A COUPON OF 5 3/4 PERCENT AND A MAXIMUM MATURITY OF 10 YEARS. REPAYMENT WILL BEGIN AFTER 5 YEARS AND WILL BE MADE IN FIVE EQUAL ANNUAL INSTALMENTS.

11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

FEB MARCH APRIL

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INSOLVENCIES

TOTAL	750	869	747
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PERCENT CHANGE FROM

PREVIOUS YEAR	-10.5	-4.1	1.2
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
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Copy: SINGLE
Draft Date: 20 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN11354
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USOECD
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780257-0314
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780642/aaaabjvf.tel
Line Count: 401
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Litigation History:
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SAS ID: 2291038
Secure: OPEN
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TAGS: ECON, EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9362c785-c288-dd11-92da-001cc4696bcc
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